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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D. C.

OFFICE OF THE DEPUTY DIRECTOR (INTELLIGENCE)

4 DEC 1962

MEMORANDUM FOR: Mr. Paul H. Nitze
Assistant Secretary of Defense
for International Security
Affairs
Department of Defense

SUBJECT: Communist China: Economic
Performance in 1962

Attached is an analysis of Communist China's economic performance in 1962. Although 1962 will show some slight improvements in the agricultural sector and in certain (primarily light) industries, it is clear that China is still far from pulling out of its economic depression. Prospects for recovery would be made even more remote if the Free World imposed an imbargo (as a result of the Sino-Indian conflict, for example) and remoter still should the USSR and the European satellites break off economic relations with Peiping.

[redacted]

RAY S. CLINE
Deputy Director (Intelligence)

Attachment

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COMMUNIST CHINA: ECONOMIC PERFORMANCE IN 1962

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COMMUNIST CHINA: ECONOMIC PERFORMANCE IN 1962

To judge from recent statements from Peiping, the Chinese Communist leaders believe that, as the result of a slight improvement in the 1962 harvest and some limited achievements in industry, the regime has passed the point of most serious economic difficulties and that the road ahead, although difficult, should bring continued improvement.

Information, either officially released or independently acquired, continues to be extremely sparse. Official claims, however, note advances in some priority areas of production; [redacted] reports indicate slight improvements in the supply of some foods and other consumer goods; and weather data suggest slightly better growing conditions during the year for the country as a whole. These bits and pieces, together with Peiping's more optimistic outlook since September, indicate moderate improvement in an extremely difficult situation. Even with limited improvement in 1962, serious problems still remain in every major sector of an economy that may be little more productive than it was 5 years ago.

Continued Moderate Policies

With the Chinese Communist agricultural and industrial failures of the past few years, to which the Sino-Soviet dispute has contributed, Peiping's hopes to achieve world power status in this decade have vanished. The traditional Communist approach of all-out emphasis on expansion of heavy industry ran counter to the realities of the domestic situation and had to be set aside, at least temporarily. Faced with basic problems of overpopulation, backwardness in agriculture, and a low level of technology in industry, the Chinese Communist leaders were forced in 1961 to shift priority emphasis to stimulating production in agriculture, industries supporting agriculture, and light industry.

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The public rationale offered by the regime for the moderate policies adopted in 1961 was that these policies were expedient responses to natural disasters. After 2 or 3 years, it was asserted, Communist China would again "leap forward." Late in 1961 the tone of discussion changed. Although some elements of expediency persisted, Peiping began to assert that moderate policies would be valid over a long period of time. Economic matters not usually questioned openly in China, such as the role of profit incentives and criteria for making investment decisions, were debated in newspapers following the National Peoples Congress in March-April 1962. One article went so far as to justify the policy of downgrading heavy industry by arguing that investment was not an end in itself and that in any case there was no point in producing investment goods for industries that had insufficient raw materials and technology to expand production.

The communiqué issued pertaining to the 10th Plenum of the 8th Party Congress, which met secretly in Peiping on 24-27 September 1962, suggests a new, more disciplined phase in economic policies. The Party appears to have decided (1) to retain the concepts "leap forward" and "communes" at least as slogans if not as operative guides to policy; (2) to permit no further retreat in collectivization of agriculture, and, as a corollary, to restrict private "capitalist" tendencies in the countryside; and (3) to retain recent emphasis on more conservative management policies for industry, policies which are similar to those that prevailed in 1957.

The future trend in economic policies is obscure and represents an important element in the uncertainty of future economic developments. There are strong radical as well as moderate elements in the Party leadership, and although both factions seem agreed that "leap forward" methods were wasteful, they can be expected to disagree on other matters. The radicals probably would like to revert to Maoist hardline policies, once agricultural conditions permit. The moderates, however, have indicated that they would like to see a trend toward a permissive, market type of socialism that would be to the right of current Soviet practice.

Slight Increase in Agricultural Production and in Food Supply

The preliminary assessment of the agricultural situation in Communist China in 1962 is for a slight increase in production of grain above

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the abnormally low levels of 1960 and 1961. Production of grain in 1962 may be no higher than the 185 million metric tons (mt) harvested in 1957, a year in which the population was 10 percent smaller. Estimates of output are based primarily on weather data, although the probability of somewhat larger acreage of fall grain crops and slightly increased supplies of chemical fertilizer also have been taken into consideration. The level of grain imports by China in the 1962/63 consumption year (July-June) will provide an additional indication of the actual size of the harvest of 1962. Thus far, contracts have been signed for delivery of a smaller quantity of grain in the 1962/63 consumption year than in the previous consumption year, but additional contracts probably will be signed in the next 2 months for delivery before June 1963.

The further decentralization of authority within the collective farm system in 1962 -- the production team of about 30 households is now the basic unit for carrying on agricultural activities -- probably had little effect on the output of rice, wheat, and miscellaneous grains. Encouragement by the regime of work on private plots and of trade in open markets, however, is believed to have resulted in a substantial increase in the supply of vegetables, fruits, and sweet potatoes in rural and urban areas.

The assessment of the harvest for 1962 implies that for the fourth consecutive year the food situation will be stringent. The average diet in 1962 probably increased slightly above that in 1961, largely as the result of increased production on private plots. The food situation probably will remain critical throughout the winter of 1962-63, although increased availability of such subsidiary foods as vegetables and sweet potatoes may make malnutrition less serious than it was in the previous year.

Problems of Population and Unemployment

Previous estimates of the population of Communist China for the years after 1958 recently have been replaced by the following figures:

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Estimated Midyear Population (Millions)	
1958	657
1959	673
1960	685
1961	696
1962	706

By comparison the previously estimated figure for 1962 was 717 million. The new estimates were made on the assumption that the death rate increased sharply after 1958 because of nutritional disorders, weakening resistance to disease, and a loss of energy resulting from acute shortages of food.

In spite of a lower rate of population growth -- about 1.5 percent per year -- Peiping is still faced with the problems of food supply and unemployment. The inability of the state to maintain full employment was tacitly acknowledged in 1962. In both city and country, unemployed and underemployed persons were encouraged to work private garden plots, produce handicraft articles, and trade their private produce in rural and urban markets. The resurgence of Chinese Communist propaganda on birth control since early 1962 suggests Peiping's open recognition of the need to control the growth of population.

Reshaping of Industry

In 1962 the Chinese Communists seem to be having limited success in carrying out their policy of reshaping industry. In January 1962, Po I-po, Vice Premier and Chairman of the State Economic Commission, set forth the following major industrial goals for the year, goals that were reaffirmed at the National Peoples Congress in March-April 1962 and discussed more fully in various newspaper and periodical articles throughout the year: (1) increased production of chemical fertilizer and farm machinery, especially medium and small farm implements; (2) expansion of production of light industry and handicrafts, especially

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production of those goods using industrial products as raw material inputs; (3) continued improvement in and additions to productive capacity in the mining and timber industries and increased production in these industries; (4) development of short-distance transportation; (5) improvement in the operational efficiency of industrial plants through enforcement of targets for quality improvement, cost reduction, and increases in output per worker and through further improvement in management and in the care and repair of equipment; and (6) further reduction in the scope of capital construction. Apparently the Chinese have achieved limited success in carrying out this policy: it is believed that there have been increases in output of priority goods such as chemical fertilizer, some farm implements, and many types of light industrial and handicraft products; that production of heavy industrial products for investment purposes has declined; that output per employed worker has increased somewhat (in large part, simply by laying off excess labor and thereby adding to the problem of unemployment); that technical and managerial personnel have been accorded greater prestige and responsibility; and that problems of quality, cost, and maintenance of equipment have been eased (but still persist as obstacles to industrial efforts).

The limited evidence available suggests that the level of total industrial production in 1962 may be no higher than that in 1957 but that the composition of output has changed substantially. Production of agricultural chemicals, some farm equipment and tools, and light industrial products made of industrial raw materials is considerably above the level of 1957, but production of the machine building, paper, and textile industries has dropped below that in 1957. Production of steel and electric power may be at roughly the level of 1958.

A major economic objective in 1962 was to raise the level of industrial technology in order to create a base capable of supporting the development of military industries and agricultural chemical industries. It is not known what technological progress was made in 1962 in the type of industries needed to support an advanced weapons program, but increases in output of chemical fertilizer and insecticides suggest improved domestic technical ability to operate plants in the chemical industry.

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Unused industrial capacity now exists in several key industries in Communist China, including the steel, electric power, machine building, and textile industries, as plants either have reduced the number of hours of operation or have closed down completely. In industries supporting agriculture, however, especially chemicals, additions to plant capacity and to the managerial and technical force of the plants are sorely needed.

Petroleum Supply Situation

It is estimated that the total of petroleum products available in Communist China in 1962 is somewhat lower than the total available in 1959, the last year for which data were published, but supplies apparently have been adequate to meet the essential needs of both the civilian and military consumers. It is believed that domestic production of petroleum products in 1962 was at roughly the same level as in 1960. There are no known technical or other special difficulties to which the domestic industry might have been subject in 1962, and the eight major refineries, which use relatively simple processes, are believed to have sustained a high level of operation throughout the year. The major sources of crude oil continue to be the oilfields at Yu-men, Karamai, and the Tsaidam Basin and the shale oil plants at Fushun.

Imports of petroleum products are estimated to have declined from 3.2 million mt in 1961 to 1.9 million mt in 1962; with the sharpest decline taking place in imports of motor gasoline -- from 1.0 million mt in 1961 to 0.3 million mt in 1962. The brunt of the decline in imports of motor gasoline is believed to have been absorbed by the civilian motor transport industry rather than by the military, whose requirements increased late in 1962 because of military operations in Tibet. Imports of aviation fuels and high-quality lubricants in 1962 continued at the level of 1961. Communist China is totally dependent on imports for these products and assigns a high priority to sustaining the supply of the products.

Importance of Foreign Trade

The economic and political difficulties with which Communist China now finds itself confronted have had a marked effect on its foreign trade.

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During the past few years, the reduction in agricultural products available for export, the deterioration in Sino-Soviet relations, and the retrenchment policy in industry have combined to lower the total volume of trade and to alter sharply its direction and composition. Total trade (imports plus exports) in 1961 amounted to only $2.9 billion -- compared with $4.3 billion in 1959 and $3.9 billion in 1960 -- and the figure for 1962 may be roughly 5 percent lower than that for 1961. Faced with a hungry population and a stumbling economy, the regime is now concentrating import priorities on foodstuffs and raw materials, whereas imports of Bloc-supplied investment goods have been drastically reduced. Since 1960, imports from the Soviet Bloc have represented less than one-half of the total imports, a situation that would have been almost inconceivable a few years earlier. This changing import picture is summarized in Table 1, and the extent to which certain major imported commodities now contribute to the economy is shown in Table 2.

Although Communist China is less dependent now than it was before 1960 on imports from abroad of machinery, equipment, and technical assistance, there are some vulnerable spots in the Chinese economy that would give the regime considerable difficulty if it should be denied access to foreign markets. It has been suggested, for example, that the world reaction to the Sino-Indian conflict could result in some form of Free World embargo against China. It also has been suggested that the continuing deterioration in Sino-Soviet relations could result in a break or in a further reduction in economic relations between China and the Soviet Bloc. If economic sanctions of various kinds should be imposed against China by the Free World and/or the Soviet Bloc at a time when the Chinese are still faced with major problems in starting an economic recovery or when the Chinese might be engaged in further conflict on the Indian border, the effects on the Chinese economy could be relatively serious. The following tentative estimates are made of the effects on China if economic sanctions were to be imposed.

1. If an embargo on strategic goods, similar to the UN embargo against China during the Korean War, were imposed against China by all non-Bloc countries, the effect on the Chinese economy would be relatively small. With the exception of rubber, none of the major items China now

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Table 1

Communist China: Imports by Major Commodity Groupings and Source 1959 and 1961

Million US $

	1959			1961		
	Total	Soviet Bloc	West	Total	Soviet Bloc	West
Total	2,040	1,330	710	1,420	550	870
Foodstuffs	10	N.A.	10	520	70	450
Grains	N.A.	N.A.	N.A.	370	20	350
Sugar	N.A.	N.A.	N.A.	150	50	100 a/
Raw materials	810	240	570	590	230	360
Of which:						
Petroleum products	120	120	N.A.	130	130	N.A.
Rubber	120	N.A.	120	60	N.A.	60
Fertilizer	70	N.A.	70	50	N.A.	50
Machinery and equipment b/	980	910	70	230	200	30
All others	240	180	60	80	50	30

a. Sugar imported from Cuba.
b. Including trucks, of which 2,500 were imported in 1962 -- 2,000 from the Bloc and 500 from non-Bloc countries.

imports from the Free World would be embargoed, and in all probability China could satisfy most of its requirements for rubber by purchases through Soviet Bloc intermediaries.

2. A total embargo by non-Bloc countries against Communist China would have the important effect of depriving the Chinese of their main sources of imported grain and fertilizer. Grain imports from the

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Table 2

Communist China: Dependence on Imports of Selected Items
1962

	Thousand Metric Tons				
			Net Imports		
	Total Availability	Domestic Production	Soviet Bloc	West	Dependence on Imports (Percent)
Food grains a/	120,000	115,000 b/	287	4,100	4
Petroleum products	6,180	4,320	1,860	N.A.	30
Rubber	120	N.A.	N.A.	120	100
Fertilizer	3,500	2,100	Negl.	1,400	40

a. Food grains include tubers on the basis of 4 tons of tubers equivalent to 1 ton of grain.
b. Available for human consumption after an estimated deduction of 37 percent from a gross output of 182 million tons. This deduction accounts for losses resulting from the milling of grain, handling, and transportation and storage losses and for such nonfood uses as reserves for seed, feed, and industrial requirements.

West have averaged about 5 million mt annually during the last 2 years, and, given the unfavorable results of the harvest in 1962, a similar quantity of grain probably will have to be imported in 1963 in order to maintain the already low level of per capita supplies. Failure to import 5 million mt of grain in 1963 might reduce by 3 to 4 percent the total caloric availability, thereby diminishing labor productivity, which is already low, and causing increased rural dissatisfaction if farm procurement is tightened. Per capita food supplies would fall back toward the extremely low level experienced in the winter of 1960-61, before imports of grain became available for distribution on a large scale. The cumulative effects of prolonged malnutrition and widespread dissatisfaction could lead to a level of unrest that would tax the police powers of the regime.

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3. If the USSR and the European Satellites were to break off economic relations with Communist China and if, at the same time, non-Bloc countries were to impose a strategic embargo against China, there would be a substantial reduction in the military capabilities of the Communist regime. The Chinese Air Force would be immobilized by a lack of aviation fuels, and ground transport capability would be reduced by shortages of spare parts, motor gasoline, lubricants, and possibly rubber. Moreover, recovery of the Chinese economy as a whole would be retarded by at least several years because of the difficulties of making or purchasing from the Free World replacements and parts for Soviet-built machinery.

4. If the USSR and the European Satellites were to break off economic relations with Communist China and if all non-Bloc countries were to impose a complete embargo against China, economic recovery would be postponed even further. Without outside sources of grain and fertilizer, the food and agricultural situation in China would become even less tenable, and efforts toward rational industrial recovery would be delayed by the overriding need to stimulate farm output. In this event the Chinese economy might continue in the doldrums or recover slowly over a long period of time. But even with the outlook for its economy dim, China would continue to pose a military threat to its weaker Asian neighbors. Although its air force would be grounded and although shortages of fuels, rubber, and replacement parts would curtail its transport capability, China could still field a ground force more powerful than any combination of the present forces of its southern neighbors.

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